

May 2005



# North Dakota REV-E-NEWS

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The 59<sup>th</sup> Legislative Assembly completed its work on April 23, 2005. The basis for all legislative budget decisions is the general fund revenue forecast and a great deal of time and discussion was involved in arriving at the final legislative forecast for the 2003-05 and 2005-07 bienniums. The legislature settled on a conservative forecast for the 2005-07 biennium, supplemented with a transfer from the permanent oil tax trust fund and secured by a sizable balance in the budget stabilization fund.

The final legislative forecast for the 2003-05 biennium provides for \$1.918 billion in general fund revenues. The legislative forecast for the 2005-07 biennium provides for general fund revenues of \$1.935 billion. The 2003-05 biennium is expected to end with a general fund balance of \$65.0 million, even after allowing for a transfer

of \$64.5 million to the budget stabilization fund. The budget stabilization fund is used to offset any decreases in revenues that exceed 2.5 percent of the legislative forecast. The 2005-07 biennium is expected to end with a general fund balance of \$10.3 million.

The Legislative Assembly provided for a transfer of \$55.3 million from the permanent oil tax trust fund to the general fund during the 2005-07 biennium. However, current estimates indicate that approximately \$10.6 million will remain in the permanent oil tax trust fund at the end of the 2005-07 biennium.

April revenues exceeded the most recent forecast for the 2003-05 biennium by approximately \$10.0 million and exceeded the original forecast by over \$11.0 million.

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## Business and Careers

Good news for North Dakota economic development! Forbes magazine listed two North Dakota cities in the top five nationally in its ranking of best small areas to do business and advance careers. The Forbes rankings are based on the sum

of rankings in nine categories that include wage and salary growth, job growth, activity in critical industries that foster future growth, and quality of life issues.

Fargo was ranked 4<sup>th</sup>, Bismarck 5<sup>th</sup>, and Grand Forks 30<sup>th</sup>.

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## National Economic Outlook For States

*Economy.com*, the economic forecasting firm used by the state, reports in its May 2005 Précis publication that state and local governments are enjoying strong revenue growth in most major tax types. "All major economic drivers of state and

local tax collections are at or near their cyclical growth peaks. Retail sales, wages, profits and investment income are all expanding strongly."

Although growth may slow, state revenue collections are expected to "remain healthy throughout much of the next two fiscal years."

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## Oil Activity

Oil production increased significantly from just over 92,000 barrels per day in February to nearly 95,000 barrels per day in March. Drilling permit activity increased from 7 permits in February to 37 permits in March. The average price for

North Dakota crude has decreased slightly from March highs. March prices averaged over \$49 per barrel, compared to the February average of around \$42 per barrel. Current prices are back down to just over \$41 per barrel. The current rig count is 20, up 4 rigs from one year ago.

**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
***Compared to the Legislative Forecast***  
**2003-05 BIENNIUM**  
**April 2005**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	March 2003 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	March 2003 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	23,089,000	26,102,362	3,013,362	13.1%	608,279,000	650,714,209	42,435,209	7.0%
Motor Vehicle Excise Tax	5,021,000	5,567,985	546,985	10.9%	116,055,000	116,617,893	562,893	0.5%
Individual Income Tax	52,368,000	57,254,818	4,886,818	9.3%	406,605,000	419,172,202	12,567,202	3.1%
Corporate Income Tax	11,502,000	17,442,422	5,940,422	51.6%	79,200,000	89,040,554	9,840,554	12.4%
Insurance Premium Tax	300,000	(239,550)	(539,550)	-179.9%	49,612,000	49,760,498	148,498	0.3%
Financial Institutions Tax	2,297,000	1,705,940	(591,060)	-25.7%	5,120,000	4,712,826	(407,174)	-8.0%
Oil & Gas Production Tax*	1,667,000		(1,667,000)	-100.0%	39,520,000	45,534,044	6,014,044	15.2%
Gaming Tax	500,000	994,826	494,826	99.0%	21,078,000	19,104,690	(1,973,310)	-9.4%
Lottery	-	-	-		280,000	1,432,434	1,152,434	411.6%
Interest Income	446,000	412,229	(33,771)	-7.6%	10,112,000	4,579,173	(5,532,827)	-54.7%
Oil Extraction Tax*	1,126,000		(1,126,000)	-100.0%	26,743,000	25,465,956	(1,277,044)	-4.8%
Cigarette & Tobacco Tax	1,355,000	1,519,668	164,668	12.2%	33,673,000	36,217,656	2,544,656	7.6%
Departmental Collections	1,333,000	1,326,582	(6,418)	-0.5%	50,324,609	56,975,773	6,651,164	13.2%
Wholesale Liquor Tax	457,000	526,242	69,242	15.2%	10,589,000	10,863,549	274,549	2.6%
Coal Conversion Tax	2,106,000	2,138,838	32,838	1.6%	43,225,000	43,272,140	47,140	0.1%
Mineral Leasing Fees	300,000	557,568	257,568	85.9%	4,065,000	7,690,759	3,625,759	89.2%
Bank of North Dakota-Transfer					30,000,000	30,000,000		0.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer	174,525	174,525		0.0%	1,396,200	1,396,200		0.0%
Other Transfers	-	3,165	3,165	100.0%	80,580,004	80,913,475	333,471	0.4%
<b>Total</b>	<b>104,041,525</b>	<b>115,487,621</b>	<b>11,446,096</b>	<b>11.0%</b>	<b>1,616,456,813</b>	<b>1,693,464,032</b>	<b>77,007,219</b>	<b>4.8%</b>
Federal Fiscal Relief Payments						50,000,000	50,000,000	100.0%
Federal Fiscal Relief -Medicaid FMAP						6,456,581	6,456,581	100.0%
<b>Total Revenues and Transfers</b>	<b>104,041,525</b>	<b>115,487,621</b>	<b>11,446,096</b>	<b>11.0%</b>	<b>1,616,456,813</b>	<b>1,749,920,613</b>	<b>133,463,800</b>	<b>8.3%</b>

\* Oil and gas production and oil extraction tax collections totaled \$9.2 million in April. Because the \$71.0 million statutory cap for the 2003-05 biennium has been attained, all April collections will be reserved for transfer to the permanent oil tax trust fund. A total of \$32.8 million is now reserved for transfer to the permanent oil tax trust fund at the end of the 2003-05 biennium and is not reflected in general fund oil tax collections.

**COMPARISON TO PREVIOUS BIENNIUM REVENUES**  
**2003-05 BIENNIUM**  
**April 2005**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2003	April 2005	Variance	Percent	2001-03	2003-05	Variance	Percent
Sales Tax	23,463,419	26,102,362	2,638,943	11.2%	583,435,257	650,714,209	67,278,952	11.5%
Motor Vehicle Excise Tax	5,142,472	5,567,985	425,513	8.3%	108,942,046	116,617,893	7,675,847	7.0%
Individual Income Tax	47,208,177	57,254,818	10,046,641	21.3%	371,800,081	419,172,202	47,372,121	12.7%
Corporate Income Tax	9,895,262	17,442,422	7,547,160	76.3%	77,710,010	89,040,554	11,330,544	14.6%
Insurance Premium Tax	177,720	(239,550)	(417,270)	-234.8%	42,634,774	49,760,498	7,125,724	16.7%
Financial Institutions Tax	2,114,023	1,705,940	(408,083)	-19.3%	6,188,851	4,712,826	(1,476,025)	-23.8%
Oil & Gas Production Tax	2,776,667		(2,776,667)	-100.0%	41,360,334	45,534,044	4,173,710	10.1%
Gaming Tax	1,178,533	994,826	(183,707)	-15.6%	25,073,526	19,104,690	(5,968,836)	-23.8%
Lottery		-	-		-	1,432,434	1,432,434	100.0%
Interest Income	47,166	412,229	365,063	774.0%	6,656,409	4,579,173	(2,077,236)	-31.2%
Oil Extraction Tax	1,363,343		(1,363,343)	-100.0%	22,143,781	25,465,956	3,322,175	15.0%
Cigarette & Tobacco Tax	1,116,707	1,519,668	402,961	36.1%	36,020,551	36,217,656	197,105	0.5%
Departmental Collections	1,160,964	1,326,582	165,618	14.3%	54,416,564	56,975,773	2,559,209	4.7%
Wholesale Liquor Tax	442,247	526,242	83,995	19.0%	10,163,558	10,863,549	699,991	6.9%
Coal Conversion Tax	2,176,492	2,138,838	(37,654)	-1.7%	43,028,250	43,272,140	243,890	0.6%
Mineral Leasing Fees	411,007	557,568	146,561	35.7%	6,106,569	7,690,759	1,584,190	25.9%
Bank of North Dakota-Transfer	-		-		45,000,000	30,000,000	(15,000,000)	-33.3%
State Mill & Elevator-Transfer	-		-				-	
Gas Tax Admin-Transfer	170,424	174,525	4,101	2.4%	1,363,392	1,396,200	32,808	2.4%
Other Transfers	322	3,165	2,843	883.1%	18,818,706	80,913,475	62,094,769	330.0%
<b>Total</b>	<b>98,844,945</b>	<b>115,487,621</b>	<b>16,642,676</b>	<b>16.8%</b>	<b>1,500,862,659</b>	<b>1,693,464,032</b>	<b>192,601,373</b>	<b>12.8%</b>
Federal Fiscal Relief Payments						50,000,000	50,000,000	100.0%
Federal Fiscal Relief - Medicaid FMAP						6,456,581	6,456,581	100.0%
<b>Total Revenues and Transfers</b>	<b>98,844,945</b>	<b>115,487,621</b>	<b>16,642,676</b>	<b>16.8%</b>	<b>1,500,862,659</b>	<b>1,749,920,613</b>	<b>249,057,954</b>	<b>16.6%</b>

\* Oil and gas production and oil extraction tax collections totaled \$9.2 million in April. Because the \$71.0 million statutory cap for the 2003-05 biennium has been attained, all April collections will be reserved for transfer to the permanent oil tax trust fund. A total of \$32.8 million is now reserved for transfer to the permanent oil tax trust fund at the end of the 2003-05 biennium and is not reflected in general fund oil tax collections.

# Revenue Variances

Overall, April revenue collections exceeded the original legislative forecast by \$11.4 million, or 11.0 percent. Actual revenues exceeded the most recent forecast by approximately \$10.0 million.

Sales and use taxes continue to exceed expectations. April collections exceeded the monthly forecast by \$3.0 million, continuing the strong economic activity we have seen reflected in taxable sales and purchases throughout the past two years. Biennium to date collections exceed the forecast by \$42.4 million, or 7.0 percent.

Individual income taxes exceeded the original forecast by \$4.9 million, or 9.3 percent. This appears to reflect actual growth in collections, not timing, despite the fact that April 30 landed on a weekend. However, such a month end does result in some negative timing issues. Consequently, some collections that would have otherwise been accounted for in April, and resulted in an even larger April variance, will be shifted to May. Biennium to date collections exceed the forecast by \$12.6 million.

Corporate income tax collections exceeded the original forecast by an encouraging \$5.9 million. Biennium to date collections, which had been fairly close to the original forecast, now exceed the forecast by \$9.8 million, or 12.4 percent. As is the case with individual income tax collections, this variance appears to reflect strong collections, not timing issues. These collections are mostly estimated tax payments and therefore reflect an encouragingly optimistic view held by North Dakota corporations that 2005 will be a profitable year.

Oil and gas taxes totaled \$9.2 million for April, \$5.1 million more than the amount included in the original legislative forecast. However, pursuant to NDCC Section 57-51.1-07.2, all oil and gas taxes collected in excess of \$71.0 million must be transferred to the permanent oil tax trust fund at the end of the biennium. The \$71.0 million threshold was reached in December 2004. Consequently, the entire amount collected in April has been reserved for transfer to the permanent oil tax trust fund. Through April 2005, \$32.8 million has been reserved for transfer to the permanent oil tax trust fund and is available for purposes approved by the Legislative Assembly.